MEMORANDUM FOR CHIEF FINANCIAL OFFICERS OF EXECUTIVE DEPARTMENTS AND AGENCIES SUBJECT TO THE CHIEF FINANCIAL OFFICERS ACT AND THE GOVERNMENT MANAGEMENT REFORM ACT OF 1994

FROM: KENNETH BRESNAHAN
Acting Chief Financial Officer

SUBJECT: Federal Employees' Compensation Act Liabilities

This transmits Federal agencies' **unaudited estimated actuarial liability for future workers' compensation** (FWC) benefits for the fiscal year ended 1999. For comparative purposes, FY 1998 amounts are also presented. By January 2000 the Department's Office of Inspector General will issue the results of their audit of the FWC liability.

Per Office of Management and Budget (OMB) guidance, each reporting entity preparing financial statements under the Chief Financial Officers (CFO) Act and the Government Management Reform Act (GMRA) should include its respective portion of the actuarial liability for workers' compensation benefits as a liability in its financial statement, if such amounts are material.

The amounts presented on the Attachment were developed by the Department of Labor's (DOL) Employment Standards Administration (ESA). A description of the methodology used to estimate the actuarial liability is also included in the Attachment. In addition to the amounts reported for CFO Act agencies, amounts are presented for the Agency for International Development, Federal Emergency Management Agency, National Science Foundation, Nuclear Regulatory Commission, the Office of Personnel Management, and the Small Business Administration, to facilitate implementation of GMRA requirements. Agencies not specifically listed are included in the "Other" category. DOL/ESA is unable to estimate the actuarial liability for the individual agencies comprising the "Other" category.

This guidance is for the purpose of financial statement presentation only and is not intended for use as a standard for incorporating actuarial liabilities in fees, prices, and reimbursements. Federal entities should comply with laws and regulations related to pricing policies in general and for specific types of goods and services. Additional guidance on recording this actuarial liability is contained in the Intragovernmental Fiduciary Transactions Accounting Guide, at the following address www.fms.treas.gov/cfs/dev/99guide on the internet.

Attachment

Attachment

ACTUARIAL LIABILITY ESTIMATES FOR
FUTURE WORKERS' COMPENSATION BENEFITS

	(Dollars in thousands)	
	1999	1998
U.S. Postal Service	4,873,454	4,621,367
Department of the Navy	2,411,211	2,390,148
Department of the Army	1,515,120	1,442,824
Department of Veterans Affairs	1,220,390	1,310,572
Department of the Air Force	1,214,836	1,199,504
Department of Transportation	1,108,951	1,061,978
Department of the Treasury	746,108	717,026
Department of Labor (1) (3)	166,476	114,222
Department of Defense, Other	682,108	638,300
Tennessee Valley Authority	609,085	627,733
Department of Agriculture	582,116	587,834
Department of Justice	681,897	608,799
Department of the Interior	453,790	428,526
Department of Health and Human Services	179,527	180,571
Social Security Administration	185,234	188,374
General Services Administration	167,943	161,704
Department of Commerce	109,064	110,373
Department of Energy	66,445	56,245
Department of State	60,874	46,881
Department of Housing and Urban Development (3)	64,398	56,869
Department of Education (3)	8,582	5,533
National Aeronautics and Space Administration (3)	61,690	51,455
Environmental Protection Agency (3)	35,115	18,974
National Science Foundation	1,245	726
Small Business Administration	16,585	15,372
Office of Personnel Management (3)	6,558	4,718
Nuclear Regulatory Commission	3,885	4,795
Agency for International Development	37,873	35,005
Federal Emergency Management Agency (3)	14,498	6,418
Other (2)	441,686	298,940

(1) Excludes amounts not chargeable to other Federal agencies and estimates for the Panama Canal Commission Compensation Fund.

(2) Other is defined as all agencies not specifically identified above receiving annual FECA bills.

(3) Figures for these agencies are still under review by the Office of Inspector General and may be revised prior to issuance of the final audited figures.

The liability for future workers' compensation (FWC) benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

1999	1998
5.50 % in year 1, 5.50 % in year 2, 5.55 % in year 3, 5.60 % in year 4, and thereafter	5.60 % in year 1, and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) are applied to the calculation of projected future benefits. These factors are also used to adjust the methodology's historical payments to current year constant dollars. The methodology also includes a discounting formula to recognize the timing of compensation payments as thirteen payments per year instead of one lump sum per year. The projected number of years of benefit payments is 37 years.

The compensation COLAs and CPIMs used in the projections were as follows:

FY	COLA	CPIM
1989	4.47 %	6.98 %
1990	4.43 %	8.40 %
1991	5.03 %	9.36 %
1992	5.00 %	7.96 %
1993	2.83 %	6.61 %
1994	2.77 %	5.27 %
1995	2.57 %	4.72 %
1996	2.63 %	4.00 %
1997	2.77 %	3.11 %
1998	2.70 %	2.76 %
1999	1.53 %	3.51 %
2000	1.83 %	3.66 %
2001	2.33 %	3.99 %
2002	2.40 %	4.02 %
2003	2.43 %	4.08 %
2004+	2.50 %	4.08 %

The model's resulting projections were analyzed to insure that the amounts were reliable. The analysis is based on three tests; (1) a comparison of the current year projections to the prior year projections, (2) a comparison of the prior year projected payments to the current year actual payments, excluding any new case payments that had arisen during the current year, and (3) a comparison of the current year actual payment data to the prior year actual payment data. Based on the outcome of this analysis, ad hoc adjustments were made to correct any anomalies in the projections.